

Audit Report

Livingston County Community Mental Health Authority

October 1, 2002 – September 30, 2003



Office of Audit
Fenton Regional Office
July 2008



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF COMMUNITY HEALTH
OFFICE OF AUDIT
400 S. PINE, LANSING, MI 48933

JANET OLSZEWSKI
DIRECTOR

July 11, 2008

Roxanne Garber, Chairperson, Board of Directors
Livingston County Community Mental Health Authority
2280 E. Grand River
Howell, MI 48843

and

Angus MacDonald Miller, IV, Chief Executive Director
Livingston County Community Mental Health Authority
2280 E. Grand River
Howell, MI 48843

and

Ms. Janet Olszewski, Director
Department of Community Health
Capitol View Building – 7th Floor
Lansing, MI 48913

CERTIFIED MAIL

7007 1490 0001 8196 0597

Dear Ms. Garber, Mr. Miller, and Ms. Olszewski:

This is the final report from the Michigan Department of Community Health (MDCH) audit of the Livingston County Community Mental Health Authority for the period October 1, 2002 through September 30, 2003.

The final report contains the following: description of agency; funding methodology; purpose and objectives; scope and methodology; conclusions, findings and recommendations; financial status report; explanation of audit adjustments; contract reconciliation and cash settlement summary; and corrective action plans. The conclusions, findings, and recommendations are organized by audit objective. The corrective action plans include the agency's paraphrased response to the Preliminary Analysis, and the Office of Audit's response to those comments where necessary.

If the agency disagrees with the MDCH audit findings, the agency must use the appeal process specified in Attachment 9.3.2.1 of the agency's contract with MDCH. The adjustments presented in this final report are an adverse action as defined by MAC R 400.3401. If disputing the adverse action, the agency must submit a request for the Medicaid Provider Reviews and Hearings Process pursuant to MCL 400.1 et seq. and MAC R 400.3401, et seq. within 30 days of the receipt of this letter. Requests must identify the specific audit adjustment(s) under dispute, explain the reason(s) for the disagreement, and state the dollar amount(s) involved, if any. The

Ms. Garber, Mr. Miller, and Ms. Olszewski

Page 2

July 11, 2008

request must also include any substantive documentary evidence to support the position. Requests must specifically identify whether the agency is seeking a preliminary conference, a bureau conference or an administrative hearing. If the agency does not appeal this adverse action within 30 days of receipt of this notice, this letter will constitute MDCH's Final Determination Notice according to MAC R 400.3405, and MDCH will implement the audit adjustments.

A request for the Medicaid Provider Reviews and Hearings Process must be sent within 30 days of receipt of this letter to:

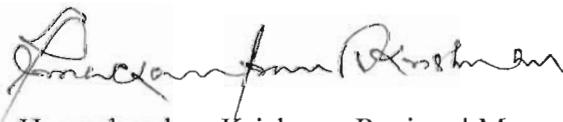
Administrative Tribunal & Appeals Division
Michigan Department of Community Health
1033 S. Washington
P.O. Box 30763
Lansing, Michigan 48909

For any audit finding and adjustment not in dispute, the agency must submit any resulting amounts due to MDCH within 30 days of receipt of this letter to:

Lisa Halverson, Manager
Revenue Operations Section
Bureau of Finance (Accounting Division)
Michigan Department of Community Health
P.O. Box 30437
Lansing, Michigan 48909

Thank you for the cooperation extended throughout this audit process.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Hemachandran Krishnan', is written over a light blue rectangular background.

Hemachandran Krishnan, Regional Manager
Fenton Regional Office
Office of Audit

TABLE OF CONTENTS

	Page
Description of Agency	1
Funding Methodology.....	1
Purpose and Objectives.....	2
Scope and Methodology	3

Conclusions, Findings and Recommendations

Contract and Best Practice Guidelines Compliance

1. Internal Control Weaknesses	4
2. Subcontracts Not Executed or Lacked Clearly Defined Terms	5
3. Weakness in Accounting for Personal Funds (Consumer Funds)	7

Financial Reporting

4. Improper Allocation of Building Costs	8
5. Reported Costs Not Supported by General Ledger.....	10
6. Improper Reporting Method for Leasehold Improvements	13
7. Improper Inclusion of Prior Year's Expenditures.....	14
8. Lack of Documentation for Payroll Allocation	15

<u>MDCH's and PIHP's Share of Costs and Balance Due.....</u>	18
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Schedules

Schedule A - Financial Status Report FYE 9/30/2003	19
Schedule B - Explanation of Audit Adjustments FYE 9/30/2003	24
Schedule C - Contract Reconciliation and Cash Settlement Summary FYE 9/30/2003....	25
Corrective Action Plans	27

DESCRIPTION OF AGENCY

The Livingston County Community Mental Health Authority (LCCMHA) was established in 1966 and operates under the provisions of the Mental Health Code, Sections 330.1001 – 330.2106 of the Michigan Compiled Laws. LCCMHA is subject to oversight by the Michigan Department of Community Health (MDCH).

The LCCMHA provides outpatient, partial day, residential, case management, prevention and Omnibus Budget Reconciliation Act (OBRA) services to consumers.

LCCMHA's administrative office is located in the City of Howell. The LCCMHA Board is comprised of 12 members who reside in Livingston County and are appointed for three-year terms.

FUNDING METHODOLOGY

LCCMHA contracted with MDCH under a Managed Mental Health Supports and Services Contract (MMHSSC) for FYE 2003. This provided State General Funds (GF) for providing mental health and developmental disability supports and services to individuals with serious mental illness, serious emotional disturbances or developmental disabilities as described in Section 208 of the Mental Health Code. LCCMHA received approximately \$4.3 million of GF funding in FYE 2003. LCCMHA reported their GF expenditures related to the MMHSSC to MDCH on a Financial Status Report (FSR) and a settlement with MDCH occurred after the fiscal year end.

Effective October 1, 2002, the Washtenaw Community Health Organization (WCHO) formed a Prepaid Inpatient Health Plan called the CMH Partnership of Southeast Michigan (PIHP). Included in this partnership are LCCMHA and two other community mental health organizations. The PIHP contracted with MDCH for Medicaid funding under a Managed Specialty Supports and Services Contract (MSSSC). MDCH provided both the state and federal share of Medicaid funds as capitated payments based on a Per

Eligible Per Month (PEPM) methodology to the PIHP. The PIHP then passed the Medicaid funds on to the affiliated community mental health organizations under a separate “Medicaid Subcontracting Agreement” (MSA) based on their individual PEPM determinations. Under the MSA, LCCMHA is also subject to the terms and conditions of the MSSSC, Mental Health Code, and applicable state and federal laws. LCCMHA received approximately \$10.5 million of Medicaid funding from the PIHP. LCCMHA reported their Medicaid expenditures related to the MSA to the PIHP, and a settlement occurred between LCCMHA and the PIHP. The PIHP then combined all affiliates’ reported Medicaid expenditures and reported them on a Financial Status Report (FSR) to MDCH, and a settlement between the PIHP and MDCH occurred after the fiscal year end. LCCMHA also reported their Medicaid expenditures related to the MSA as an Earned Contract on their FSR with MDCH for information purposes only as no settlement occurred between LCCMHA and MDCH relating to the Medicaid funds.

LCCMHA also received special and/or designated funds, fee for services funds, and MI Child capitated funds under special contractual arrangements with MDCH. Each agreement specifies the funding methodologies. MICHild is a non-Medicaid program designed to provide certain medical and mental health services for uninsured children of Michigan working families. MDCH also provided the funding for the program by capitated payments based on a Per Eligible Per Month methodology for covered services.

PURPOSE AND OBJECTIVES

The purpose of the review was to assess the agency’s performance relative to the requirements and best practice guidelines set forth in the contracts; to determine whether the agency properly reported revenues and expenditures in accordance with generally accepted accounting principles and contractual requirements; and to determine MDCH’s and PIHP’s share of costs in accordance with applicable requirements and agreements. Following are the specific objectives of this review:

Objectives

1. CONTRACT AND BEST PRACTICE GUIDELINES COMPLIANCE

To assess LCCMHA's effectiveness and efficiency in establishing and implementing specific policies and procedures, and complying with the MSA, MMHSSC and MSSSC requirements and best practice guidelines.

2. FINANCIAL REPORTING

To assess LCCMHA's effectiveness and efficiency in reporting their financial activity in accordance with the MSA, MMHSSC and MSSSC requirements; applicable federal, state, and local statutory requirements; Medicaid regulations; and applicable accounting standards.

3. MDCH'S AND PIHP'S SHARE OF COSTS AND BALANCE DUE

To determine MDCH's and PIHP's share of costs in accordance with applicable requirements and agreements, and to identify any balance due to or from LCCMHA.

SCOPE AND METHODOLOGY

We examined LCCMHA's records and activities for the period October 1, 2002 through September 30, 2003. We completed an Internal Control Questionnaire and reviewed internal controls relating to accounting for revenues and expenditures, procurement and other contracting procedures, reporting, claims management, and risk financing. We interviewed LCCMHA's executive, financial, and administrative staff. We reviewed LCCMHA's policies and procedures. We examined contracts for compliance with guidelines, rules, and regulations. We summarized and analyzed revenue and expenditure account balances to determine if they were properly reported on the Financial Status Report (FSR) in compliance with the MSA, MMHSSC and MSSSC reporting requirements and applicable accounting standards. We performed our audit procedures from January 2005 to March 2005.

CONCLUSIONS, FINDINGS AND RECOMMENDATIONS

CONTRACT AND BEST PRACTICE GUIDELINES COMPLIANCE

Objective 1: To assess LCCMHA's effectiveness and efficiency in establishing and implementing specific policies and procedures, and complying with the MSA, MMHSSC and MSSSC requirements and best practice guidelines.

Conclusion: LCCMHA was not always effective and efficient in establishing and implementing specific policies and procedures, and in complying with the MSA, MMHSSC and MSSSC requirements and best practice guidelines. Our assessment disclosed exceptions with respect to internal control (finding 1), subcontracts (finding 2), accounting for personal or consumer funds (finding 3), and financial reporting (findings 4-8).

Finding

1. Internal Control Weaknesses

LCCMHA did not have adequate internal control procedures in place to ensure accurate financial reporting.

LCCMHA's final FSR was not reported accurately. The expenditures reported on the FSR did not agree to the general ledger. We reconciled the FSR to the general ledger and made the appropriate adjustments. To ensure that all revenues and expenses are reported accurately to MDCH, LCCMHA should review the reconciliation between the General Ledger and the FSR and verify that the FSR reflects the General Ledger. The financial reporting issue is addressed in greater detail in finding #5.

LCCMHA was unable to locate proper records upon request. It is the responsibility of LCCMHA to maintain a system that retains and safeguards any and all records supporting financial and provision of services activities for at least

seven years as required by the MSA and MMHSSC. Failure to do this could result in significant payments back to MDCH or other entities.

The MSA, Section XVIII, Program and Financial Books, Documents, and Records: Audits, Reviews, Program/Service Evaluations, states, in part, “A. ...Said program, clinical, and contract/financial records and supporting documentation must be retained by each of the parties and be available for such audit, review or evaluation purposes for seven (7) years after completion of this Agreement...”

The MMHSSC, Section 6.6.1 states, “The CMHSP shall maintain all pertinent financial and accounting records and evidence pertaining to this contract based on financial and statistical records that can be verified by qualified auditors...”

Recommendation

We recommend that LCCMHA review its internal control weaknesses, and adopt policies and procedures that will strengthen its internal control and ensure accurate financial reporting.

Finding

2. Subcontracts Not Executed or Lacked Clearly Defined Terms

LCCMHA did not apply proper procedures and policies to establish and maintain fully executed contracts with subcontractors and did not always ensure compliance with contract terms as required by the MSA, MMHSSC and Code of Federal Regulation requirements.

LCCMHA did not properly enter into formal contracts with all of its subcontractors. We found instances where no contracts were available to verify payment rates to subcontractors. There were other instances in which contracts were available; however, the contract terms were not followed when payment was made. For example, LCCMHA subcontracted the psychological and case consultation services for Juvenile Justice Diversion to two subcontractors.

However, no contract was available for our review to verify the rate and other contract terms. In another instance, LCCMHA could not provide us the contract with Children's Home of Detroit (CHD) from October 1, 2002 through February 28, 2003. Only one contract dated March 1, 2003 through September 30, 2003 was available for our review, which only covered a portion of the fiscal year. Additionally, LCCMHA underpaid Network Behavioral Health Systems (NBHS) for the services they provided based on the rate structure stated in the contract. CHD and NBHS provided residential services to LCCMHA's consumers.

The MSA, Section IX, CSSN Services and Responsibilities, states in part, "...C. The CSSN agrees that any such subcontract shall: (1) be in writing and include a full specification of the subcontracted services...."

The MMHSSC, Section 6.4.1, Subcontracting, states, in part,

The CMHSP may subcontract for the provision of any of the services specified in this contract including contracts for administrative and financial management, and data processing. The CMHSP shall be held solely and fully responsible to execute all provisions of this contract, whether or not said provisions are directly pursued by the CMHSP or pursued by the affiliated CMHSPs through a subcontract vendor. The CMHSP shall ensure that all subcontract arrangements clearly specify the type of services being purchased. Subcontracts entered into by the CMHSP shall address the following:...G. Payment arrangements (including coordination of benefits) and solvency requirements.

Federal Regulation 42 CFR 434.6 provides general requirements for all contracts and subcontracts. Section 434.6(b) states, in pertinent part, "All subcontracts must be in writing and fulfill the requirements of this part that are appropriate to the service or activity delegated under the subcontract." Section 434.6(c) states, in pertinent part, "No subcontract terminates the legal responsibility of the contractor to the agency to assure that all activities under the contract are carried out."

Recommendation

We recommend that LCCMHA implement policies and procedures to ensure the proper execution of subcontracts and compliance with contract terms.

Finding

3. Weakness in Accounting for Personal Funds (Consumer Funds)

LCCMHA did not maintain resident funds in compliance with the Licensing Rules for Adult Foster Care Small Group Homes issued by the State of Michigan Department of Consumer and Industry Services (Licensing Rules).

LCCMHA did not monitor the resident funds properly. The home managers at Oak Grove and Tanager Group Homes did not reconcile the bank statements and the residential fund forms regularly. Therefore, interest earned was not included on the residential fund forms. The contract manager from LCCMHA did not review the consumer funds on a regular basis.

The Licensing Rules for Adult Foster Care Small Group Homes, Section 400.14315, Handling of Resident Funds and Valuables, states, in part, “(13) A licensee shall provide a complete accounting, on an annual basis and upon request, of all resident funds and valuables which are held in trust and in bank accounts or which are paid to the home, to the resident, or to his or her designated representative.”

Recommendation

We recommend that LCCMHA implement effective monitoring policies and procedures to ensure that resident funds are accurately and properly accounted for in compliance with the Licensing Rules for Adult Foster Care Small Group Homes issued by the State of Michigan Department of Consumer and Industry Services (Licensing Rules).

FINANCIAL REPORTING

Objective 2: To assess LCCMHA's effectiveness and efficiency in reporting their financial activity in accordance with the MSA, MMHSSC and MSSSC requirements; applicable federal, state, and local statutory requirements; Medicaid regulations; and applicable accounting standards.

Conclusion: LCCMHA did not accurately report their financial activity on the Financial Status Report as required by the MSA, MMHSSC and MSSSC. We found exceptions related to the improper allocation of building costs (finding 4), reported costs not supported by the General Ledger (finding 5), improper reporting method for leasehold improvements (finding 6), improper inclusion of prior year's expenditures (finding 7), and lack of documentation for payroll allocation (finding 8).

Finding

4. Improper Allocation of Building Costs

LCCMHA did not properly allocate the building costs and adequately document the method used to allocate the costs between various programs in compliance with the MSA, MMHSSC and OMB Circular A-87 requirements.

LCCMHA informed us that a square footage amount is assigned to each staff member based on how much personal space is occupied by the individual. LCCMHA provided us with the square footage for each program that utilizes the Main and Maplewood Buildings. However, we were unable to verify the allocation method that LCCMHA used for our audit period when comparing the percentages used to allocate the costs based on the square footage and the actual cost charged to each program. Our calculation showed that 12.67% should be allocated to Outpatient-Adults (program 30210) based on the square footage used by the program; however, LCCMHA allocated 18.77% of the total cost of the Maplewood Building to this program. The same issue arises for Outpatient-Children (program 40210). Our calculation showed that 17.05% should be

allocated to Outpatient-Children (program 40210); however, LCCMHA allocated 25.95% of the total cost to this program. Our calculation also showed that the allocation method is inaccurate and cannot be verified for all of the eighteen (18) programs that used the Maplewood Building, except for Wraparound-Enterprise (program 40527).

We calculated and compared the percentages used to allocate the Main Building costs to the various programs. Our calculation showed that 8.49% should be allocated to CSL Clearing (program 10527) based on the square footage used by the program; however, LCCMHA allocated 14.77% of the total cost of the Main Building to this program. Additionally, 26.61% should have been allocated to Board Administration (program 50000) based on the square footage; however, LCCMHA allocated 21.78% of the total cost. Our calculation also showed that the allocation method is inaccurate and could not be verified for all of the thirty (30) programs that used the Main Building.

The MSA, Section XVII, Reporting Requirements: Accounting Procedures and Internal Financial Controls, states in part, “D. Each party understands and acknowledges that its accounting and financial reporting under this Agreement must be in compliance with MDCH accounting and reporting requirements including but not limited to the A87....”

The MMHSSC, Section 6.6.1 states,

The CMHSP shall maintain all pertinent financial and accounting records and evidence pertaining to this contract based on financial and statistical records that can be verified by qualified auditors. The CMHSP will comply with generally accepted accounting principles (GAAP) for government units when preparing financial statements. The CMHSP will use the principles and standards of OMB Circular A-87 for determining all costs....

OMB Circular A-87, Attachment A, Section C, Basic Guidelines, states, in part,

...3. Allocable costs. a. A cost is allocable to particular cost objective if the goods or services involved are chargeable or

assignable to such cost objective in accordance with relative benefits received. b. All activities which benefit from the governmental unit's indirect cost, including unallowable activities and services donated to the governmental unit by third parties, will receive an appropriate allocation of indirect costs....

LCCMHA needs to adhere to the above requirements to ensure that costs are being properly identified and charged to the proper program. Failure to properly identify and allocate costs appropriately between programs could affect the agency's ability to satisfy the terms of the contract and could affect future funding from the department. An audit adjustment is not made due to immateriality.

Recommendation

We recommend that LCCMHA implement policies and procedures to ensure that methods used in allocating building costs are in compliance with the requirements of the MSA, MMHSSC and OMB Circular A-87. We also recommend that LCCMHA retain documentation supporting the methods of allocating building costs.

Finding

5. Reported Costs Not Supported by General Ledger

LCCMHA included costs on the FSR that had no supporting documentation in violation of the MSA, MMHSSC and OMB Circular A-87 requirements.

LCCMHA's reported costs did not fully represent real or actual expenditures based on the General Ledger. Additionally, LCCMHA's reported costs were not adequately documented, or determined in accordance with generally accepted accounting principles.

The General Ledger did not reconcile to the FSR. These differences involved inappropriate allocations based on revenue, unsupported adjustments to expenses, and expense accounts reported on the FSR that were not supported by the General Ledger. The net effect on gross total expenditures was an overstatement on the FSR of \$4,899, with a much more substantial effect on the different funding

sources. The break down for the \$4,899 adjustment relates to overstatements of \$3,242 for Earned Contracts Total, \$1,663 for GF Categorical and Formula Services Total, and an understatement of \$6 for Expenditures Not Otherwise Reported.

During our audit of FYE 1998/1999, MDCH found that the total expenses reported by LCCMHA on its final FSR submitted to MDCH were not accurate and did not agree with the expenditures recorded in the agency's general ledger. LCCMHA stated on the Corrective Action Plan that they have corrected and refined their procedure for finalizing their total expenses, the amount of total expenses reported on their final FSR submitted to MDCH, and with the expenditures recorded in their general ledger so that they are all accurate and consistent and in keeping with all contractual, regulatory and procedural requirements.

The Mental Health Code, Section 330.1242 states, in part, "The following expenditures by a community mental health services program are not eligible for state financial support...(c) Any cost item that does not represent or constitute a real or actual expenditure by the community mental health services program...." Reported costs that have no supporting documentation cannot be claimed as real or actual expenditures by the community mental health services program.

The MSA, Section XVII, Reporting Requirements: Accounting Procedures and Internal Financial Controls, states in part, "...B. The accounting procedures and internal financial controls of the parties shall conform to generally accepted accounting principles in order that the costs and expenditures allowed by this Agreement can be readily ascertained and verified."

Section D states, "Each party understands and acknowledges that its accounting and financial reporting under this Agreement must be in compliance with MDCH accounting and reporting requirements including but not limited to the A87...."

The MMHSSC, Section 6.6.1 states,

The CMHSP shall maintain all pertinent financial and accounting records and evidence pertaining to this contract based on financial and statistical records that can be verified by qualified auditors. The CMHSP will comply with generally accepted accounting principles (GAAP) for government units when preparing financial statements. The CMHSP will use the principles and standards of OMB Circular A-87 for determining all costs....

The MMHSSC, Section 7.5, Operating Practices, states, in pertinent part, “The CMHSP shall adhere to Generally Accepted Accounting Principles....The CMHSP program accounting procedures must comply with: A. Generally Accepted Accounting Principles for Governmental Units...C. OMB Circular A-87....”

OMB Circular A-87, Attachment A, Section C. Basic Guidelines, states, in part, “1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria...c. Be authorized or not prohibited under State or local laws or regulations...j. Be adequately documented.”

An audit adjustment removing \$4,899 from the reported expenditures is shown on Schedules A and B. This adjustment impacts the GF expenditure reporting and settlement with MDCH, which is shown on Schedule C. This adjustment also impacts the Medicaid expenditure reporting and settlement with the PIHP. Adjustments relating to Medicaid expenditures are shown on the Earned Contracts line (D3) on Schedule A, and also represent changes to reported expenditures to the PIHP. The total amount due from LCCMHA to the PIHP relating to the MSA is summarized in the Conclusion to Objective 3.

Recommendation

We recommend that LCCMHA implement policies and procedures to ensure that the amount reported on the FSR is supported by the General Ledger and that all costs are documented and supported as required by the MSA, MMHSSC and OMB Circular A-87.

Finding

6. Improper Reporting Method for Leasehold Improvements

LCCMHA did not properly report the purchases of leasehold improvements on the FSR in compliance with the MSA, MMHSSC and OMB Circular A-87 requirements.

LCCMHA overstated expenses on the FSR by including the purchase price of certain leasehold improvements made for the Norton Group Home rather than using depreciation or use allowances. Thus, a net adjustment of \$6,907 is to be made to remove the unallowable expenditure.

The MSA, Section XVII, Reporting Requirements: Accounting Procedures and Internal Financial Controls, states in part, “D. Each party understands and acknowledges that its accounting and financial reporting under this Agreement must be in compliance with MDCH accounting and reporting requirements including but not limited to the A87....”

The MMHSSC states that OMB Circular A-87, among other documents, shall guide program accounting procedures. OMB Circular A-87, Attachment B, Section 15 a, states, in part, “Depreciation and use allowances are means of allocating the cost of fixed assets to periods benefiting from asset use. Compensation for the use of fixed assets on hand may be made through depreciation or use allowances.”

An audit adjustment removing \$6,907 from the reported expenditures is shown on Schedules A and B. The adjustment impacts the Medicaid expenditure reporting and settlement with the PIHP. Adjustments relating to Medicaid expenditures are shown on the Earned Contracts line (D3) on Schedule A, and also represent changes to reported expenditures to the PIHP. The total amount due from LCCMHA to the PIHP relating to the MSA is summarized in the Conclusion to Objective 3.

Recommendation

We recommend LCCMHA implement policies and procedures to ensure that all leasehold improvements are capitalized and expensed in compliance with the MSA, MMHSSC and OMB Circular A-87.

Finding

7. Improper Inclusion of Prior Year's Expenditures

LCCMHA reported prior year's expenditures for residential contracted services on the FSR for FYE 9/30/2003 in violation of the MSA and MMHSSC.

LCCMHA paid \$26,486 to one of the providers for the residential contracted services provided to the consumer in the previous fiscal year.

The MSA, Section XVII, Reporting Requirements: Accounting Procedures and Internal Financial Controls, states in part,

D. Each party understands and acknowledges that its accounting and financial reporting under this Agreement must be in compliance with MDCH accounting and reporting requirements including but not limited to the A87. In this regard, accrual accounting and reporting...shall be the methodology implemented by each party for the purposes of this Agreement.

The MMHSSC, Attachment C 7.8.1, Section 1.3, Financial Status Report states in part, "...all reported revenue and expenditure information is required to be

provided on an accrual basis of accounting. This accrual basis is expected to recognize all revenues and expenditures through the reporting periods....”

The expense stated above is an allowable expense that was reported in the wrong year. Rather than making an audit adjustment and also re-opening the prior year settlement to allow the expense, the expense will remain in the audit year with no adjustment.

Recommendation

We recommend that LCCMHA implement policies and procedures to ensure that costs of services are being recorded in the year the services are provided in compliance with the MSA and MMHSSC.

Finding

8. Lack of Documentation for Payroll Allocation

LCCMHA did not adequately document the method used to allocate payroll costs between various programs in compliance with the MSA, MMHSSC and OMB Circular A-87 requirements.

LCCMHA used various methods to allocate departments’ wages between programs. These methods ranged from full-time equivalents derived from budgeted figures, an incomplete and inaccurate time study performed during our audit period, costs permitted by various grant awards and the supervisor’s best guess. None of these methods were documented.

During our audit of FYE 1998/1999, MDCH found that LCCMHA did not report payroll expenses in compliance with the requirements of the MSSSC and OMB Circular A-87. LCCMHA stated that they corrected and refined their procedure to ensure that methods used in allocating wages to different programs are made in compliance with all operative requirements and to ensure retention of documentation supporting the method of allocating wages to different cost departments.

The MSA, Section XVII, Reporting Requirements: Accounting Procedures and Internal Financial Controls, states in part,

...E. Each party shall maintain payroll records and other time keeping records, including any employee time allocation studies and any cost center(s) distribution formula for costs of employees and subcontractors sufficient to document the provision of services required under this Agreement.

The MMHSSC, Section 6.6.1 states,

The CMHSP shall maintain all pertinent financial and accounting records and evidence pertaining to this contract based on financial and statistical records that can be verified by qualified auditors. The CMHSP will comply with generally accepted accounting principles (GAAP) for government units when preparing financial statements. The CMHSP will use the principles and standards of OMB Circular A-87 for determining all costs....

OMB Circular A-87, Attachment B, Section 11, Compensation for Personnel Services, Section h. sets forth standards regarding time distribution that are in addition to the standards for payroll documentation.

Section h. (3), states,

Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

Section h. (4) states,

Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meet the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on: (a) More than one Federal award, (b) A Federal award and a non-Federal award, (c) An

indirect cost activity and a direct cost activity, (d) Two or more indirect activities which are allocated using different allocation bases, or (e) An unallowable activity and a direct or indirect cost activity.

Section h. (5) states,

Personnel activity reports or equivalent documentation must meet the following standards: (a) They must reflect an after-the-fact distribution of the actual activity of each employee, (b) They must account for the total activity for which each employee is compensated, (c) They must be prepared at least monthly and must coincide with one or more pay periods, and (d) They must be signed by the employee. (e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes....

LCCMHA needs to adhere to the above requirements to ensure that costs are being properly identified and charged to the proper program. Failure to properly identify and allocate costs appropriately between programs could affect the agency's ability to satisfy the terms of the contract and could affect future funding from the department. The financial impact of this finding was not calculated due to the lack of documentation to support a payroll allocation and the time or cost involved in determining a proper allocation would exceed the benefit.

Recommendation

We recommend that LCCMHA implement policies and procedures to ensure that methods used in allocating wages are in compliance with the requirements of the MSA, MMHSSC and OMB Circular A-87.

MDCH'S AND PIHP'S SHARE OF COSTS AND BALANCE DUE

Objective 3: To determine MDCH's and PIHP's share of costs in accordance with applicable requirements and agreements, and to identify any balance due to or from LCCMHA.

Conclusion: MDCH's obligation (excluding the MIChild capitated funds, MDCH Earned Contracts, and Children's Waiver funds) is \$3,718,001. LCCMHA owes MDCH a balance of \$1,497, after considering advances and the prior settlement as shown on Schedule C. LCCMHA also owes the PIHP a balance of \$9,388, as shown on Schedule A Expenditures, Section D 3.

Schedule A
Financial Status Report
October 1, 2002 through September 30, 2003

REVENUES	Reported Amount	Audit Adjustments	Adjusted Amount
A. Revenues Not Otherwise Reported	\$ 221,507	\$ -	\$ 221,507
B. Substance Abuse Total	\$ -	\$ -	\$ -
1 Medicaid Pass Through	-	-	-
2 Other	-	-	-
C. Earned Contracts (non DCH) Total	\$ 11,122,809	\$ -	\$ 11,122,809
1 CMH to CMH	304,137	-	304,137
2 Other	318,040	-	318,040
3 Medicaid Managed Care - CMHSP Affiliate	10,500,632	-	10,500,632
D. MI Child - Mental Health	\$ 15,412	\$ -	\$ 15,412
E. Local Funding Total	\$ 730,348	\$ -	\$ 730,348
1 Special Fund Account (226(a))	58,819	-	58,819
2 Title XX Replacement	4,600	-	4,600
3 All Other	415,697	-	415,697
4 Affiliate Local Contribution to State Medicaid Match	251,232	-	251,232
F. Reserve Balances - Planned for use	\$ 226,627	\$ -	\$ 226,627
1 Carryforward - Section 226(2)(b)(c)	226,627	-	226,627
2 Internal Service Fund	-	-	-
3 Other (205(4)(h))	-	-	-
4 Stop/loss Insurance	-	-	-
G. DCH Earned Contracts Total	\$ 503,768	\$ -	\$ 503,768
1 PASARR	115,906	-	115,906
2 Block Grant for CMH Services	387,862	-	387,862
3 DD Council Grants	-	-	-
4 PATH/Homeless	-	-	-
5 Prevention	-	-	-
6 Aging	-	-	-
7 HUD Shelter Plus Care	-	-	-
8 Other DCH Earned Contracts	-	-	-

Schedule A
Financial Status Report
October 1, 2002 through September 30, 2003

REVENUES	Reported Amount	Audit Adjustments	Adjusted Amount
H. Gross Medicaid Total	\$ 172,951	\$ -	\$ 172,951
1 Medicaid - Specialty Managed Care	-	-	-
2 Medicaid - Children's Waiver Total	172,951	-	172,951
I. Reimbursements Total	\$ -	\$ -	\$ -
1 1st and 3rd Party	-	-	-
2 SSI	-	-	-
J. State General Funds Total	\$ 4,448,061	\$ (141,911)	\$ 4,306,150
1 CMH Operations	3,896,922	(126,800)	3,770,122
2 Categorical Funding	13,920	-	13,920
3 State Services Base	522,108	-	522,108
4 DCH Risk Authorization	15,111	(15,111)	-
5 Residential D.C.W.	-	-	-
K. Grand Total Revenues	\$ 17,441,483	\$ (141,911)	\$ 17,299,572
L. Estimated MDCH Obligation (H+J)	\$ 4,621,012	\$ (141,911)	\$ 4,479,101

Schedule A
Financial Status Report
October 1, 2002 through September 30, 2003

EXPENDITURES	Reported Amount	Audit Adjustments	Adjusted Amount
A. Gross Total Expenditures	\$ 16,415,252	\$ (11,806)	\$ 16,403,446
B. Expenditures Not Otherwise Reported	\$ 1,507	\$ 6	\$ 221,513
C. Substance Abuse Total	\$ -	\$ -	\$ -
1 Medicaid Pass Through	-	-	-
2 Other	-	-	-
D. Earned Contracts (Non MDCH) Total	\$ 11,122,809	\$ (10,149)	\$ 11,112,660
1 CMH to CMH	304,137	-	304,137
2 Other Earned Contracts	318,040	(761)	317,279
3 Medicaid Managed Care - Affiliate	10,500,632	(9,388)	10,491,244
E. MI Child - Mental Health	\$ 15,412	\$ -	\$ 15,412
F. Local Total	\$ 305,879	\$ -	\$ 305,879
1 Local Cost for State Provided Services	54,589	-	54,589
2 Other Not Used as Local Match	58	-	58
3 Local Fund Medicaid	-	-	-
4 Affiliate Local Contribution to State Medicaid Match	251,232	-	251,232
G. Expenditures From Reserve Balances	\$ 226,627	\$ -	\$ 226,627
1 Carryforward - Sec 226(2)(b)(c)	226,627	-	226,627
2 Internal Service Fund	-	-	-
3 Other (205(4)(h))	-	-	-
4 Stop/Loss Ins.	-	-	-

Schedule A
Financial Status Report
October 1, 2002 through September 30, 2003

EXPENDITURES	Reported Amount	Audit Adjustments	Adjusted Amount
H.y MDCH Earned Contracts Total	\$ 503,768	\$ -	\$ 503,768
1 PASARR	115,906	-	115,906
2 Block Grant for CMH Services	387,862	-	387,862
3 DD Council Grants	-	-	-
4 PATH/Homeless	-	-	-
5 Prevention	-	-	-
6 Aging	-	-	-
7 HUD Shelter Plus Care	-	-	-
8 Other MDCH Earned Contracts	-	-	-
I. Matchable Services (A-(B through H))	\$ 4,019,250	\$ (1,663)	\$ 4,017,587
J. Payments to MDCH for State Services	\$ 366,217	\$ -	\$ 366,217
K. Specialty Managed Care Service Total	\$ -	\$ -	\$ -
1 100% MDCH Matchable Services	-	-	-
2 All SSI and Other Reimbursements	-	-	-
3 Net MDCH Share for 100 % Services (K1-K2)	-	-	-
4 90/10 Matchable Services	-	-	-
5 Medicaid Federal Share	-	-	-
6 Other Reimbursements	-	-	-
7 10% Local Match Funds	-	-	-
8 Net State Share for 90/10 Services (K4-K5-K6-K7)	-	-	-
9 Total MDCH Share, Spec. Mgd Care (K3+K5+K8)	-	-	-
L. GF Categorical and Formula Services Total	\$ 3,480,082	\$ (1,663)	\$ 3,478,419
1 100% MDCH Matchable Services	65,953	-	65,953
2 All SSI and Other Reimbursements	-	-	-
3 Net GF and Formula for 100% Services (L1-L2)	65,953	-	65,953
4 90/10 Matchable Services	3,414,129	(1,663)	3,412,466
5 Reimbursements	-	-	-
6 10% Local Match Funds	341,413	(166)	341,247
7 Net GF and Formula for 90/10 Services (L4-L5-L6)	3,072,716	(1,497)	3,071,219
8 Total MDCH GF and Formula (L3+L7)	3,138,669	(1,497)	3,137,172

Schedule A
Financial Status Report
October 1, 2002 through September 30, 2003

EXPENDITURES		Reported Amount	Audit Adjustments	Adjusted Amount
M.	Children's Waiver - Total	\$ 172,951	\$ -	\$ 172,951
1	Medicaid	172,951	-	172,951
2	Other Reimbursements	-	-	-
N.	Unobligated Spending Authority Total	\$ 816,375	\$ -	\$ 816,375
1	DCH Risk Authorization	15,111	-	15,111
2	All Other	801,264	-	801,264
O.	Total Local Match Funds (F+K7+L6)	\$ 647,292	\$ (166)	\$ 647,126
P.	Total MDCH Share of Expenditures (J+K9+L8+M)	\$ 3,677,837	\$ (1,497)	\$ 3,676,340

Schedule B
Explanation of Audit Adjustments
October 1, 2002 through September 30, 2003

State General Funds Total Revenues **(\$141,911)**

(\$126,800) to adjust the misreported DD Center Placements,
per cost settlement

(\$15,111) to adjust the misreported Risk Authorization, per
cost settlement

Gross Total Expenditures **(11,806)**

(\$4,899) to disallow the reported costs not supported by
General Ledger (finding 5)

(\$6,907) to disallow the improper reporting method for
leasehold improvements (finding 6)

Expenditures Not Otherwise Reported **\$6**

\$6 to allow the reported costs supported by General Ledger
(finding 5)

Earned Contracts (Non MDCH) Total **(\$10,149)**

(\$3,242) to disallow the reported costs not supported by General
Ledger (finding 5)

(\$6,907) to disallow the improper reporting method for
leasehold improvements (finding 6)

Matchable Services **(\$1,663)**

(\$1,663) to disallow the reported costs not supported by General
Ledger (finding 5)

GF Categorical and Formula Services Total **(\$1,663)**

(\$1,663) to disallow the reported costs not supported by General
Ledger (finding 5)

90/10 Matchable Services **(\$1,663)**

(\$1,663) to disallow the reported costs not supported by General
Ledger (finding 5)

Schedule C
Contract Reconciliation and Cash Settlement Summary
October 1, 2002 through September 30, 2003

I	State/General Fund Formula Funding		MDCH
A.	GF/Formula - State and Community Managed Programs	Authorization	Expense
1	State Managed Services	\$ 522,108	\$ 366,217
2	MDCH Risk Authorization - MDCH Approved for Use	-	-
3	Community Managed Services	3,784,042	3,137,172
4	Total State and Community Programs - GF/Formula Funding	\$ 4,306,150	\$ 3,503,389
B.	Maintenance of Effort - Summary	\$ -	\$ -
C.	Categorical, Special And Designated Funds		
1	Respite Grant (Tobacco Tax)	\$ 13,920	\$ 13,920
2	Multicultural Services	-	-
3	Permanency Planning Grant	-	-
4	Total Categorical, Special and Designated Funds	\$ 13,920	\$ 13,920
D.	Subtotal - GF/Formula Community and State Managed Programs (A-B-C)	\$ 4,292,230	\$ 3,489,469
			Formula Funds
II	Shared Risk Arrangement		
A.	Operating Budget - Exclude MOE and Categorical Funding		\$ 4,292,230
B.	MDCH Share - Exclude MOE and Categorical Funding		\$ 3,489,469
C.	Surplus (Deficit)		\$ 802,761
D.	Redirect Freed Up General Funds		\$ -
E.	Shared Risk – Surplus (Deficit)		\$ 802,761
F.	Risk Band - 5% of Operating Budget (A x 5%)		\$ 214,612

Schedule C
Contract Reconciliation and Cash Settlement Summary
October 1, 2002 through September 30, 2003

	MDCH Share	GF Carry Forward	Redirected Savings	Total	Grand Total
III Cash Settlement					
A. MDCH Obligation					
1 Specialty Managed Care (Net of MOE)	\$ -	\$ -	\$ -	\$ -	
2 GF/Formula Funding (Net of Categorical and MOE)	3,489,469	214,612	-	3,704,081	
3 MOE Specialty Managed Care MDCH Obligation	-	-	-	-	
4 MOE GF/Formula Funding MDCH Obligation	-	-	-	-	
5 Categorical - MDCH Obligation	13,920	-	-	<u>13,920</u>	
6 Total - MDCH Obligation					\$ 3,718,001
B. Advances - Prepayments					
1 Specialized Managed Care - Prepayments Through 9/30/03			\$ -		
2 Specialized Managed Care - FY 99 Prepayments after 9/30/03			<u>-</u>		
3 Subtotal - Specialized Managed Care				\$ -	
4 GF/Formula Funding - (Include MDCH Risk Authorization)				3,770,122	
5 Purchase of Services				522,108	
6 Categorical Funding				<u>13,920</u>	
7 Total Prepayments					<u>\$ 4,306,150</u>
C. Balance Due MDCH					\$ 588,149
D. Balance Due to MDCH for Unpaid State Service Costs					
State Facility Costs				\$ 366,217	
Actual Payments to MDCH				<u>366,217</u>	
Balance Due MDCH					<u>\$ -</u>
E. Net Balance Due MDCH					\$ 588,149
Prior Settlement					<u>(586,652)</u>
Balance Due to MDCH					<u><u>\$ 1,497</u></u>

CORRECTIVE ACTION PLAN

Finding No.	1
Reference:	Page 4
Finding:	<p>Internal Control Weaknesses</p> <p>LCCMHA did not have adequate internal control procedures in place to ensure accurate financial reporting.</p>
Recommendation:	<p>Review its internal control weaknesses, and adopt policies and procedures that will strengthen its internal control and ensure accurate financial reporting.</p>
Comments:	<p>LCCMHA acknowledged that the FSR submitted to MDCH did not reconcile to the general ledger, but pointed out that the amount of the difference was immaterial. LCCMHA also stated that most documentation was produced for the auditors and the documents missing were few and did not represent a significant dollar value.</p>
Corrective Action:	<p>LCCMHA now assures that there is an audit trail that reconciles the general ledger to the FSR.</p>
Anticipated Completion Date:	September 30, 2004
DCH Response:	None.

CORRECTIVE ACTION PLAN

Finding No.	2
Reference:	Page 6
Finding:	<p>Subcontracts Not Executed or Lacked Clearly Defined Terms</p> <p>LCCMHA did not apply proper procedures and policies to establish and maintain fully executed contracts with subcontractors and did not always ensure compliance with contract terms as required by the MSA, MMHSSC and Code of Federal Regulation requirements.</p>
Recommendation:	<p>Implement policies and procedures to ensure the proper execution of subcontracts and compliance with contract terms.</p>
Comments:	<p>While it is true that not all contracts were initiated, the dollar value and number of the contracts that were not initiated was small as compared to 12 million dollars in contracts that were fully and properly executed. As with all contracts, or the purchase of services through purchase orders, contract invoices are approved by a program coordinator and or program director, and services documentation verified.</p> <p>In regards to clearly defined terms I would again like to point out that 99% of contracts have clearly defined terms.</p>

Corrective Action: LCCMHA will execute contracts or purchase orders that contain clearly defined terms for all of its contracts and purchase orders.

Anticipated Completion Date: September 30, 2008

DCH Response: None.

CORRECTIVE ACTION PLAN

Finding No.	3
Reference:	Page 8
Finding:	<p>Weakness in Accounting for Personal Funds (Consumer Funds)</p> <p>LCCMHA did not maintain resident funds in compliance with the Licensing Rules for Adult Foster Care Small Group Homes issued by the State of Michigan Department of Consumer and Industry Services (Licensing Rules).</p>
Recommendation:	<p>Implement effective monitoring policies and procedures to ensure that resident funds are accurately and properly accounted for in compliance with the Licensing Rules for Adult Foster Care Small Group Homes issued by the State of Michigan Department of Consumer and Industry Services (Licensing Rules).</p>
Comments:	<p>LCCMHA does not directly operate and is not the AFC Licensee for any of the homes under its management.</p> <p>Nowhere in the section cited by the auditors, or any other section of the “Licensing Rules,” can be found where it implicitly or explicitly states that the responsible agency, “LCCMHA,” has a duty to monitor the funds of a resident.</p>

The Licensing Rules for Adult Foster Care Small Group Homes, Section 400.14315, Handling of Resident Funds and Valuables, states, in part, “(13) A licensee shall provide a complete accounting, on an annual basis and upon request, of all resident funds and valuables which are held in trust and in bank accounts or which are paid to the home, to the resident, or to his or her designated representative.”

Section 400.14102 Definitions. “‘Designated representative’ means that person or agency which has been granted written authority, by a resident, to act on the behalf of the resident or which is the legal guardian of the resident.”

“‘Responsible agency’ means a public or private organization that, upon a written agreement with a resident or the resident’s designated representative, provides either or both of the following: Assessment planning and the establishment of an individual plan of service. Maintenance of ongoing follow-up services while the resident is in the home.”

LCCMHA has not been granted written authority and is not the payee or the legal guardian of the residents in the small group homes that LCCMHA provides funding and Assessment Planning for under contract between LCCMHA and the Licensee.

In addition, the Community Mental Health Partnership of Southeastern Michigan, Recipient Rights Department has promulgated a Personal Property policy and procedures, which like the Licensing Rules, places the responsibility of maintaining residents' funds and valuables on the Supportive Living Services provider or Director/designee of the group setting. The recipient right officers for LCCMHA do investigate any rights complaint involving a resident's funds or property; and if the complaint is substantiated, will recommend appropriate remedial action.

Corrective Action: LCCMHA did not provide any corrective action since they disagreed with the finding.

Anticipated Completion Date: Not applicable.

DCH Response: LCCMHA contracted with the group homes and placed the clients in the contracted homes; and they have the responsibility to ensure that their clients and their personal funds are protected. Section 330.1752 of the Mental Health Code, Policies and Procedures, requires that each community mental health services program establish written policies and procedures concerning recipient rights. Sub-section (p)(iii) specifies that the policies and procedures must address residents' property and funds. While this does not *specifically* require LCCMHA to review the consumer funds, oversight of the proper implementation of the required policy and procedure is recommended.

CORRECTIVE ACTION PLAN

Finding No.

4

Reference:

Page 9

Finding:

Improper Allocation of Building Costs

LCCMHA did not properly allocate the building costs and adequately document the method used to allocate the costs between various programs in compliance with the MSA, MMHSSC and OMB Circular A-87 requirements.

Recommendation:

Implement policies and procedures to ensure that methods used in allocating building costs are in compliance with the requirements of the MSA, MMHSSC and OMB Circular A-87. Also retain documentation supporting the methods of allocating building costs.

Comments:

There may have been some errors in the amount allocated for building cost to a particular program, but the errors were not material in nature. Each program is allocated various building cost based on the staff's personal space occupied. However, the allocation among the funding sources occurs based on the percent of services cost after all other costs have been allocated. Even though there were errors in the amount allocated to a particular program for the building cost, the inaccuracies were due to not adjusting the budgeted allocated percentages to what actually occurred for the fiscal year.

Corrective Action: LCCMHA is now adjusting the allocation percent to reflect any changes that occurred during the fiscal year, and maintains the documentation to support the allocation.

Anticipated Completion Date: September 30, 2006

DCH Response: None.

CORRECTIVE ACTION PLAN

Finding No.	5
Reference:	Page 11
Finding:	<p>Reported Costs Not Supported by General Ledger</p> <p>LCCMHA included costs on the FSR that had no supporting documentation in violation of the MSA, MMHSSC and OMB Circular A-87 requirements.</p>
Recommendation:	<p>Implement policies and procedures to ensure that the amount reported on the FSR is supported by the General Ledger and that all costs are documented and supported as required by the MSA, MMHSSC and OMB Circular A-87.</p>
Comments:	<p>LCCMHA acknowledged that the FSR submitted to the Michigan Department of Community Health (MDCH) did not reconcile to the general ledger, but pointed out that amount of the difference was immaterial.</p>
Corrective Action:	<p>LCCMHA now assures that there is an audit trail that reconciles the general ledger to the FSR.</p>
Anticipated Completion Date:	September 30, 2004
DCH Response:	None.

CORRECTIVE ACTION PLAN

Finding No.	6
Reference:	Page 14
Finding:	<p>Improper Reporting Method for Leasehold Improvements</p> <p>LCCMHA did not properly report the purchases of leasehold improvements on the FSR in compliance with the MSA, MMHSSC and OMB Circular A-87 requirements.</p>
Recommendation:	<p>Implement policies and procedures to ensure that all leasehold improvements are capitalized and expensed in compliance with the MSA, MMHSSC and OMB Circular A-87.</p>
Comments:	<p>The expenditure of \$6,907 was made in good faith under the belief that this was a medically necessary environmental modification (EM) necessary to meet the hygiene needs of a wheelchair bound Habilitation Waiver consumer in a licensed AFC home. The Medicaid Manual allows improvements of this nature. There was no other wheel chair accessible bathroom in the home. At the time there was no other suitable placement for this consumer. There was no indication in the Medicaid manual that EM was restricted to certain types of property. The modification did not “materially” extend the useful life of the property or increase the value of the property.</p>

LCCMHA has no ownership interest in the property. If the EM was done to a consumer's own home there would be no depreciation requirement. The landlord was unwilling to make the EM because he believed it did not increase the value of the home, and there was no guarantee that he would recoup his money since the lease was due to expire in 2005 with the options to renew at the discretion of LCCMHA. As far as we were concerned there was only one year to expense the EM.

Corrective Action: LCCMHA did not provide any corrective action since they disagreed with the finding.

Anticipated Completion Date: Not applicable.

DCH Response: MDCH maintains that these expenditures are leasehold improvements that LCCMHA made in order to comply with the law. The leasehold improvements were made to the building leased by LCCMHA to accommodate a consumer. After the consumer leaves the home, the improvement remains with the building. OMB Circular A-87 states that capital improvements over \$5,000 should be capitalized.

CORRECTIVE ACTION PLAN

Finding No.	7
Reference:	Page 15
Finding:	Improper Inclusion of Prior Year's Expenditures LCCMHA reported prior year's expenditures for residential contracted services on the FSR for FYE 9/30/2003 in violation of the MSA and MMHSSC.
Recommendation:	Implement policies and procedures to ensure that costs of services are being recorded in the year the services are provided in compliance with the MSA and MMHSSC.
Comments:	LCCMHA makes every effort to assure that transactions are posted to the proper fiscal year. The transaction in question was unusual in nature and was removed from the accruals in error.
Corrective Action:	LCCMHA staff review year end transactions in greater detail now to assure that expenditures are posted to the fiscal year they occurred.
Anticipated Completion Date:	September 30, 2004
DCH Response:	None.

CORRECTIVE ACTION PLAN

Finding No.	8
Reference:	Page 16
Finding:	<p>Lack of Documentation for Payroll Allocation</p> <p>LCCMHA did not adequately document the method used to allocate payroll costs between various programs in compliance with the MSA, MMHSSC and OMB Circular A-87 requirements.</p>
Recommendation:	<p>Implement policies and procedures to ensure that methods used in allocating wages are in compliance with the requirements of the MSA, MMHSSC and OMB Circular A-87.</p>
Comments:	<p>LCCMHA has improved its method for the allocation of payroll when an individual works for multiple programs or when the funding is provided by two different federal awards or a federal and non-federal award. The agency allocates staff by direct service hours if a staff works on multiple programs. If an individual works in multiple programs that do not have service encounters, or a program that does have service encounters and one that does not, the individual is required to maintain separate time sheets. First level Supervisory staff is allocated to the programs they supervise based on FTEs. Second level supervision is now part of Board Administration and are allocated based on accumulated cost.</p>

Corrective Action: Beginning with fiscal year 2007 the agency is now required to submit a cost allocation plan to DCH, and certify that it is followed.

Anticipated Completion Date: September 30, 2007

DCH Response: None.